

# **Unemployment Insurance Fund Forecast**

October 2003

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## **UNEMPLOYMENT INSURANCE (UI) FUND FORECAST**

### **Introduction**

This report provides a status of the UI Fund and includes information on the current and projected fund balance, receipts, disbursements, and tax rates.

The ongoing national economic downturn has significantly affected the UI Trust Fund solvency of many states. Beginning in 2002, a number of states, including New York, Texas, Minnesota, Missouri, Illinois, and North Carolina have all been forced to acquire federal UI Trust Fund loans and/or other financing to continue to provide these necessary benefits to their citizens.

The sluggish economy, increased claim duration, lower employer contributions, and statutory changes in benefit levels that began in 2002 and continue through 2005 are all contributing factors to a decreasing UI Fund balance. Current law requires that the employers' UI taxes will move from the Schedule D in 2003 to Schedule F "plus," in 2004. This "plus," a 15 percent emergency surcharge, is required by current statute to be initiated when the Trust Fund balance dips below specified levels.

Assembly Bill 444 (Chapter 1022, Statutes of 2002) requires the Employment Development Department (EDD) to conduct a study of the State's UI Fund to evaluate the merits of restructuring the revenue system. A series of meetings are scheduled. The first was held on August 25, 2003. Two other meetings are tentatively scheduled for November 24 and December 8, 2003. The EDD must submit a report to the Legislature by December 31, 2003, with recommendations to maintain the solvency of the UI Fund.

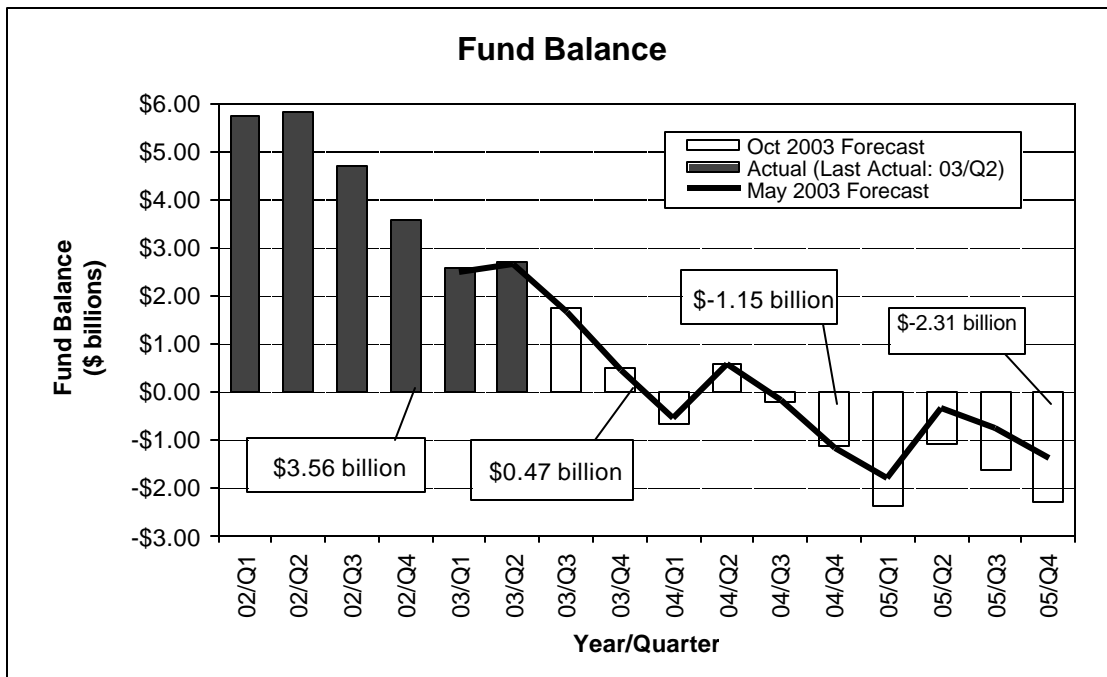
## Fund Balance

The UI Fund balance was \$2.68 billion at the end of State Fiscal Year (SFY) 2002-03. The UI Fund balance is projected to decrease to \$470 million at the end of 2003. The UI Fund balance is estimated to have a \$1.15 billion deficit at the end of 2004, and the deficit will increase to \$2.31 billion at the end of 2005.

The California UI Fund, like many other states, is expected to reach insolvency in January 2004. In December 2003, California will apply for a loan from the federal government to ensure monies are available to pay UI benefits to workers. The federal law allows for states to borrow in order to ensure continued payment of benefits to workers. California will have to take legislative action to keep the fund solvent.

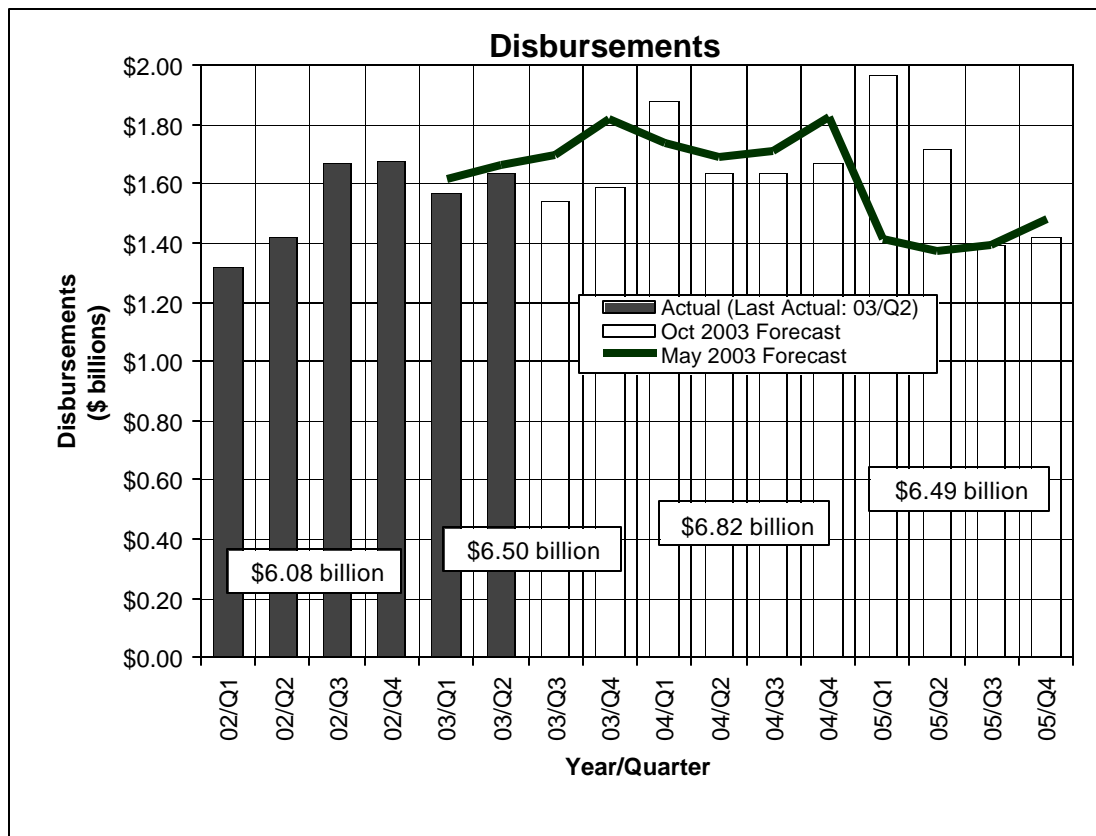
Assembly Bill 444 (Chapter 1022, Statutes of 2002) requires EDD to convene a committee to conduct a study of the State's UI Trust Fund to evaluate the merits of both counter-cyclical and pay-as-you-go funding methods. A report is due to the Legislature by December 31, 2003, making recommendations for changes to the UI tax structure to ensure trust fund solvency.

The chart below shows the projected quarterly UI Fund balance through 2005.



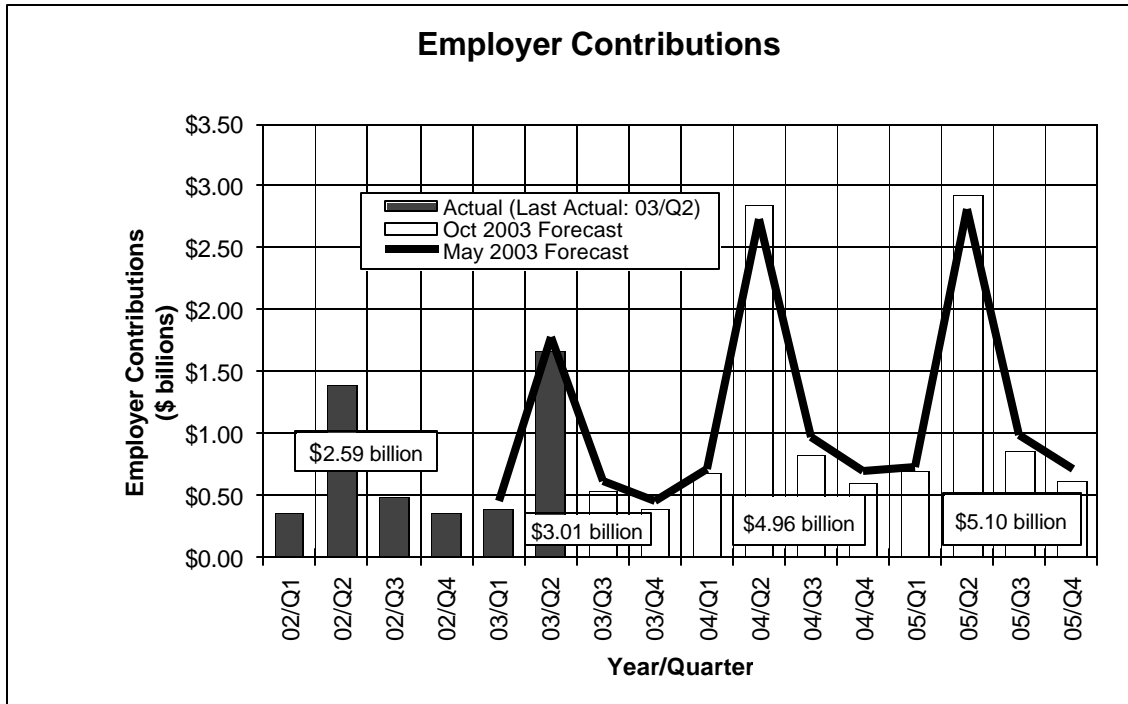
## Disbursements

Disbursements for 2003 are expected to be \$6.50 billion, up 6.9 percent from the 2002 level of \$6.08 billion. In 2004, disbursements are forecasted to be \$6.82 billion, then decrease to \$6.49 billion in 2005. The projected increase in disbursements for 2003 is due to a combination of a projected increase in the number of unemployed individuals and the UI weekly benefit increase that went into effect January 1, 2003. The projected disbursements are for regular unemployment insurance claims and do not include the additional disbursements from the Temporary Extended Unemployment Compensation program as these are reimbursed by the federal government and do not affect the UI Fund balance. The chart below shows the projected quarterly disbursements through 2005.



## Employer Contributions

Employer tax contributions for 2003 are forecasted at \$3.01 billion, up 16.2 percent from \$2.59 billion in 2002. Employer tax contributions are expected to total \$4.96 billion in 2004 and \$5.10 billion in 2005. Employers remain on the “D” contribution rate schedule in 2003, and go on the “F” contribution rate schedule with a 15 percent surcharge in 2004 and 2005. (Refer to pages A4 and A5 in the Appendix for an explanation of the tax rate schedules.) The following chart shows the projected quarterly contributions through 2005.



# APPENDIX

UNEMPLOYMENT INSURANCE FUND  
FORECAST FOR  
CALENDAR YEARS 2003-2005

Table 1  
(Dollars in millions)

Item	2002	2003(F)	2004(F)	2005(F)
YEAR END FUND BALANCE	\$3,556.7	\$470.3	(\$1,145.4)	(\$2,310.2)
Fund Balance as a Percentage of:				
Receipts	87.6%	13.8%	-22.0%	-43.4%
Employer Contributions	137.5%	15.6%	-23.1%	-45.3%
Disbursements	58.5%	7.2%	-16.8%	-35.6%
RECEIPTS MINUS DISBURSEMENTS	(\$2,023.7)	(\$3,086.4)	(\$1,615.7)	(\$1,164.8)
RECEIPTS	\$4,059.8	\$3,415.8	\$5,204.8	\$5,327.3
Employer Contributions	\$2,586.7	\$3,006.3	\$4,955.9	\$5,099.2
Interest	\$332.3	\$130.7	\$9.3	\$0.0
Reimbursements	\$192.9	\$278.8	\$239.6	\$228.1
Other	\$947.8 (1)	\$0.0	\$0.0	\$0.0
DISBURSEMENTS	\$6,083.5	\$6,502.2	\$6,820.4	\$6,492.1
Regular benefits	\$6,070.9 (2)	\$6,302.0	\$6,820.4	\$6,492.1
Other	\$12.6 (3)	\$200.2 (4)	\$0	\$0

(F) Forecast: Last actual data through second quarter of 2003.

Totals may not be exact due to rounding.

(1) Includes a one time addition of \$938 million from the Reed Act distribution in 2002.

(2) Includes retroactive benefit disbursements due to the passage of SB 3X-2 (Chapter 4, Statutes of 2001-02).

(3) Consists of write-off of uncollectible cashier shortages, transfer to Railroad Retirement Board, write-off to uncollectible accounts receivable prior to April 1941 and miscellaneous adjustments.

(4) Includes an estimated \$189,500,000 Reed Act distributions.

UNEMPLOYMENT INSURANCE FUND  
FORECAST FOR  
CALENDAR YEARS 2003-2005  
Table 2

Item	2002	2003(F)	2004(F)	2005(F)
<b>CLAIM ACTION</b>				
New Claims(1)	2,212,977	<b>2,201,000</b>	<b>2,191,000</b>	<b>2,175,000</b>
First Payments	1,437,404	<b>1,453,000</b>	<b>1,459,000</b>	<b>1,449,000</b>
Weeks Compensated(2)	25,714,742	<b>25,850,000</b>	<b>25,887,000</b>	<b>23,542,000</b>
Average Duration				
Weeks Compensated/First Payments	17.9	<b>17.8</b>	<b>17.7</b>	<b>16.2</b>
Weekly Benefit Amount				
Maximum/Minimum	\$330/\$40	<b>\$370/\$40</b>	<b>\$410/\$40</b>	<b>\$450/\$40</b>
Average (All Claimants)(3)	\$227.41	<b>\$243.89</b>	<b>\$263.47</b>	<b>\$275.77</b>
<b>COVERED WAGES</b>				
Total Wages(Less Reimbursables)	\$485.62 (bil)	<b>\$489.85 (bil)</b>	<b>\$508.91 (bil)</b>	<b>\$534.77 (bil)</b>
Average Weekly Wage	\$783.27	<b>\$784.03</b>	<b>\$802.21</b>	<b>\$826.38</b>
Taxable Wages	\$102.32 (bil)	<b>\$103.62 (bil)</b>	<b>\$106.35 (bil)</b>	<b>\$109.42 (bil)</b>
Percent of Total Wages	21.07%	<b>21.15%</b>	<b>20.90%</b>	<b>20.46%</b>
Benefits/Taxable Wages	5.93%	<b>6.08%</b>	<b>6.41%</b>	<b>5.93%</b>
<b>TAXES</b>				
Taxable Wage Ceiling	\$7,000	<b>\$7,000</b>	<b>\$7,000</b>	<b>\$7,000</b>
Tax Schedule	C	<b>D</b>	<b>F+</b>	<b>F+</b>
Average Tax Rate(4)	2.53%	<b>3.12%</b>	<b>4.66%</b>	<b>4.66%</b>
<b>EMPLOYMENT</b>				
Average Covered Employment	14,596,384	<b>14,566,000</b>	<b>14,790,000</b>	<b>15,087,000</b>
Reimbursables	2,719,227	<b>2,597,000</b>	<b>2,637,000</b>	<b>2,690,000</b>
All Others	11,877,157	<b>11,969,000</b>	<b>12,153,000</b>	<b>12,397,000</b>
Contributions/Employment All Others	\$217.79	<b>\$251.17</b>	<b>\$407.79</b>	<b>\$411.33</b>
Civilian Unemployment Rate	6.7%	<b>6.6%</b>	<b>6.5%</b>	<b>6.3%</b>

**(F) Forecast:** Last actual data for wages and employment through second quarter 2002; Last actual data for all other items through the second quarter 2003.

(bil) = Amount in billions.

Totals may not be exact due to rounding.

(1) Includes intrastate, interstate liable, and transitional claims.

(2) Does not include Temporary Extended Unemployment Compensation.

(3) The calculation for the Calendar Year 2002 Average Weekly Benefit Amount includes the dollars paid for retroactive benefits, but does not include the weeks compensated.

(4) The average tax rate for Schedule C in 2002 is revised from 2.48% to 2.53%.



## **UNEMPLOYMENT INSURANCE (UI) DEFINITIONS**

The definitions below are informational only and arranged in the order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC). Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

### **Year End Fund Balance**

Fund Balance:

The sum of all money remaining in the Unemployment Fund at the end of the year after all receipts and disbursements have been recorded but before the unamortized balance invested in capital assets is recorded.

### **Receipts**

Receipts:

This includes all income to the Unemployment Fund. Receipt items are on an “as received” basis rather than on an “as earned” basis.

Employer Contributions:

Taxes paid by an employer based on a contribution rate derived from the Experience Rating System. This system determines each individual employer’s contribution rate based on the employer’s employment experience and the condition of the UI Trust Fund. (See Taxes on page A4.)

Interest:

Income produced by investing a portion of the Unemployment Fund. California has no discretion in investment decisions.

Reimbursements:

Amounts received from employers (nonprofit organizations, state and local governments) required to reimburse the Unemployment Fund for benefits paid to their former employees.

Other Receipts:

Miscellaneous income paid to the Unemployment Fund.

## **Disbursements**

Disbursements:

All money paid from the Unemployment Fund.

Regular Benefits:

Disbursements made to UI claimants under the authority of Division 1, Part 1, of the CUIC. This includes only benefits paid under the California UI program from the UI trust fund. Regular benefits paid from the Federal Unemployment Benefit Account, which is separate from the California UI Trust Fund, including Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service Persons (UCX) programs or any combination of these programs are excluded. Benefits paid under extended benefit programs are also excluded.

UI: A state program that provides benefits to individuals covered under state and federal unemployment compensation laws.

UCFE: The federal program of unemployment compensation for federal employees.

UCX: The federal program of unemployment compensation for ex-service personnel.

Other Disbursements:

Disbursements not identified elsewhere such as write-off of uncollectible accounts and miscellaneous adjustments.

## **Claim Actions**

New Claim:

An application for determination of eligibility for benefits, weekly amount, and award which certifies either the beginning of a first period of unemployment within a benefit year, or the continuance of a period of unemployment into a new benefit year.

First Payment:

The first benefit payment made to a claimant in his/her benefit year.

Weeks Compensated:

The total number of weeks of unemployment for which regular benefits are paid.

Average Duration:

The number of weeks of benefits paid divided by the first payments.

### Maximum Weekly Benefit Amount (WBA)/Minimum WBA:

The maximum and minimum WBAs payable under Section 1280 of the CUIIC. Senate Bill (SB) 40 (Chapter 409, Statutes of 2001) increased the maximum weekly benefit amount from \$230 in 2001 to \$330 in 2002 and \$370 in 2003, and will increase the maximum weekly benefit amount to \$410 in 2004 and \$450 in 2005. SB 40 also increased the wage replacement rate from 39 percent in 2001 to 45 percent in 2002 and to 50 percent in 2003 and after. The minimum weekly benefit amount remains at \$40.

### Average Weekly Benefit Amount (AWBA):

For all claimants, regular benefits divided by the number of weeks compensated including full, partial, and part-total weekly benefit amounts results in the AWBA.

### **Covered Wages**

#### Total Wages:

All remuneration payable to employees subject to the CUIIC for personal services, including tips and gratuities received by workers.

#### Average Weekly Wage:

Total wages less reimbursable wages divided by average covered employment less reimbursable employment divided by 52.2 weeks.

#### Taxable Wages:

Portion of total wages subject to taxation under Section 930 of the CUIIC. (See Taxes on page A4.)

#### Percent of Total Wages:

The ratio of taxable wages divided by total wages, expressed as a percentage.

#### Benefits/Taxable Wages:

The ratio of benefit expenditures to taxable wages. (Reimbursables excluded.)

### **Taxes**

#### Taxable Wage Ceiling

The maximum remuneration paid to an individual by an employer during a calendar year which is subject to Section 930 of the CUIIC. The taxable wage ceiling is set by law. The current ceiling is \$7,000.

Tax Schedule:

Per Section 977 of the CUIA, the Unemployment Insurance tax schedule for the following calendar year is determined by the ratio of the Unemployment Fund balance on September 30 of the prior calendar year to total covered wages paid for the prior completed state fiscal year.

$$\frac{\text{Unemployment Insurance Trust Fund Balance (September 30)}}{\text{Total UI Covered Wages (July 1 – June 30)}}$$

<u>If the ratio is</u>	<u>Use schedule</u>
Greater than 1.8%	AA
From 1.8% to more than 1.6%	A
From 1.6% to more than 1.4%	B
From 1.4% to more than 1.2%	C
From 1.2% to more than 1.0%	D
From 1.0% to more than 0.8%	E
From 0.8% to more than 0.6%	F
Below 0.6%	F schedule plus 15%

Tax Schedule: (Continued)

Contribution Rate Schedules:

Line	Reserve Ratio			Contribution Rate Schedules							
	Column 1		Column 2	AA	A	B	C	D	E	F	F + 15%
01	less	than	-20	5.4	5.4	5.4	5.4	5.4	5.4	5.4	6.2
02	-20	to	-18	5.2	5.3	5.4	5.4	5.4	5.4	5.4	6.2
03	-18	to	-16	5.1	5.2	5.4	5.4	5.4	5.4	5.4	6.2
04	-16	to	-14	5.0	5.1	5.3	5.4	5.4	5.4	5.4	6.2
05	-14	to	-12	4.9	5.0	5.3	5.4	5.4	5.4	5.4	6.2
06	-12	to	-11	4.8	4.9	5.2	5.4	5.4	5.4	5.4	6.2
07	-11	to	-10	4.7	4.8	5.1	5.3	5.4	5.4	5.4	6.2
08	-10	to	-09	4.6	4.7	5.1	5.3	5.4	5.4	5.4	6.2
09	-09	to	-08	4.5	4.6	4.9	5.2	5.4	5.4	5.4	6.2
10	-08	to	-07	4.4	4.5	4.8	5.1	5.3	5.4	5.4	6.2
11	-07	to	-06	4.3	4.4	4.7	5.0	5.3	5.4	5.4	6.2
12	-06	to	-05	4.2	4.3	4.6	4.9	5.2	5.4	5.4	6.2
13	-05	to	-04	4.1	4.2	4.5	4.8	5.1	5.3	5.4	6.2
14	-04	to	-03	4.0	4.1	4.4	4.7	5.0	5.3	5.4	6.2
15	-03	to	-02	3.9	4.0	4.3	4.6	4.9	5.2	5.4	6.2
16	-02	to	-01	3.8	3.9	4.2	4.5	4.8	5.1	5.4	6.2
17	-01	to	00	3.7	3.8	4.1	4.4	4.7	5.0	5.4	6.2
18	00	to	01	3.4	3.6	3.9	4.2	4.5	4.8	5.1	5.9
19	01	to	02	3.2	3.4	3.7	4.0	4.3	4.6	4.9	5.6
20	02	to	03	3.0	3.2	3.5	3.8	4.1	4.4	4.7	5.4
21	03	to	04	2.8	3.0	3.3	3.6	3.9	4.2	4.5	5.2
22	04	to	05	2.6	2.8	3.1	3.4	3.7	4.0	4.3	4.9
23	05	to	06	2.4	2.6	2.9	3.2	3.5	3.8	4.1	4.7
24	06	to	07	2.2	2.4	2.7	3.0	3.3	3.6	3.9	4.5
25	07	to	08	2.0	2.2	2.5	2.8	3.1	3.4	3.7	4.3
26	08	to	09	1.8	2.0	2.3	2.6	2.9	3.2	3.5	4.0
27	09	to	10	1.6	1.8	2.1	2.4	2.7	3.0	3.3	3.8
28	10	to	11	1.4	1.6	1.9	2.2	2.5	2.8	3.1	3.6
29	11	to	12	1.2	1.4	1.7	2.0	2.3	2.6	2.9	3.3
30	12	to	13	1.0	1.2	1.5	1.8	2.1	2.4	2.7	3.1
31	13	to	14	0.8	1.0	1.3	1.6	1.9	2.2	2.5	2.9
32	14	to	15	0.7	0.9	1.1	1.4	1.7	2.0	2.3	2.6
33	15	to	16	0.6	0.8	1.0	1.2	1.5	1.8	2.1	2.4
34	16	to	17	0.5	0.7	0.9	1.1	1.3	1.6	1.9	2.2
35	17	to	18	0.4	0.6	0.8	1.0	1.2	1.4	1.7	2.0
36	18	to	19	0.3	0.5	0.7	0.9	1.1	1.3	1.5	1.7
37	19	to	20	0.2	0.4	0.6	0.8	1.0	1.2	1.4	1.6
38	20	or	more	0.1	0.3	0.5	0.7	0.9	1.1	1.3	1.5

## Tax Schedule: (Continued)

### Average Tax Rate:

The average of the rates assigned to all employers at the beginning of the year.

### **Employment**

#### Average Covered Employment:

The monthly average of the number of workers who earned wages in employment subject to the unemployment compensation provisions of the CUIA.

#### Reimbursables:

The average number of workers whose employers reimburse the Unemployment Fund (dollar for dollar) for all benefit payments that are attributed to their employment and wages.

#### All Others:

The average number of workers whose employers are subject to the regular unemployment tax.

#### Contributions/Employment All Others:

All employer contributions divided by the average covered employment, which excludes reimbursables, provides an average cost per nonreimbursable employee.

#### Civilian Unemployment Rate:

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.